Opportunity Knocks

Training the Commonwealth's Workers for the New Economy

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A Joint Project of:

Mellon

Mellon New England

MassINC

The Massachusetts Institute for a New Commonwealth

Lifelong Learning Initiative

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Dear Friend:

Mellon New England & MassINC are proud to present *Opportunity Knocks: Training the Commonwealth's Workers for the New Economy.*

As a leading employer in Massachusetts and a major presence in the region's financial services industry, Mellon New England has been a strong proponent of efforts to raise the skill levels of Massachusetts citizens. In recent years Mellon has been actively engaged in a variety of initiatives, including several innovative job training programs and a partnership with MassINC which led to the study *Closing the Gap: Raising Skills to Raise Wages* (1997) and significant reporting in the pages of *CommonWealth* magazine. By dispelling some persistent myths about the state's system of workforce development and putting sensible recommendations on the table for state policy-makers, *Closing the Gap* had a noticeable impact on the content and tone of public debate. It is our hope that today's report will similarly impact the discussion of job training in a thoughtful and productive manner.

For MassINC, the release of this report fulfills an important goal of our Lifelong Learning Initiative. The premise of the Lifelong Learning Initiative is that we must pursue a continuum approach to learning. That is why MassINC, along with our magazine *CommonWealth*, has in the past aggressively explored the spectrum of areas from early childhood education, through K-12 Education Reform, to adult literacy, to higher education. With this report, we now make a major foray into the area of job training for adult workers.

Opportunity Knocks also stands in a growing tradition of MassINC research analyzing economic trends. *The State of the American Dream in New England* (1996) documented a growing income divide based on educational attainment. *Lessons Learned: 25 Years of State Economic Policy* (1998) reviewed the historic strengths and limitations of state government in fostering economic growth. *The Road Ahead: Emerging Threats to Workers, Families and the Massachusetts Economy* (1998) examined the state's comparatively high cost of living. And most recently, *The Changing Workforce: Immigrants and the New Economy in Massachusetts* (1999) focused on the contribution of immigrants to labor force growth.

We believe the use of the word **"opportunity"** in the report's title is particularly appropriate and instructive in light of the situation we face as a commonwealth at the beginning of the new century. First, the report explains how we can **expand economic opportunity** for more middle- and working-class families by renewing efforts to build a coordinated system of job training. To be sure, Massachusetts has several strengths that make us the envy of many other states. But we can, and should, do a better job of knitting together the many public and private institutions and programs devoted to building the skills of our workforce.

Second, this report suggests that our success in the future largely depends on the willingness of the state's political, business, labor, and civic leaders to come together and **seize a special opportunity** that exists right now. With the recent passage of the Workforce Investment Act in Washington, states have more freedom than ever before to set their own objectives in job training policy and pursue creative ways to reach those goals. While the new federal policy doesn't force states to comprehensively reform themselves, it does loosen the reins so that states, who want to charge ahead of the pack, can.

We are extraordinarily grateful to the team of authors responsible for this report. John D. Donahue of Harvard University's Kennedy School of Government, Lisa M. Lynch of the Fletcher School of Law and Diplomacy at Tufts University, and Ralph Whitehead, Jr. of the University of Massachusetts, brought enormous expertise and enthusiasm to the project. And, as always, we would like to express our appreciation to the many other people who, through their valuable input, have contributed immeasurably to the final product. We hope you find *Opportunity Knocks* a provocative and timely resource, and we welcome your feedback.

Sincerely,

Gloria C. Larson

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Chairman, MELLON NEW ENGLAND

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Training the Commonwealth's Workers for the New Economy

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EXECUTIVE SUMMARY

Massachusetts has always lived by its wits. Education and technological sophistication have always mattered more in this rocky northern commonwealth than in locales more favored by geography. This heritage makes Massachusetts well-placed to prosper in the new economy. But one worrisome problem both dims the luster of the current boom and might even cut it short—inadequate skills. Shortfalls in human capital, as a series of MassINC reports has argued, threaten to inflict major damage on two fronts.

First, the state's middle class—the anchor of our commonwealth's economy, culture, and civic life—is under pressure. The income growth of families with one or more high-end professionals or technical workers is far outpacing families with less-skilled breadwinners. The widening economic gap between the have's and have-not's implies a host of troubling consequences on the social, political, and civic scenes.

Second, Massachusetts businesses are finding their competitive advantages eroding because critical positions are going unfilled. Employers are now faced with a threefold dilemma: Native Massachusetts workers too often lack the skills that new jobs require. Few skilled workers from other states are willing to migrate here. And many companies see their most skilled workers enticed by opportunities in lower-cost locales in the South and West.

MassINC's previous study, *The Road Ahead*, found that the Massachusetts labor force grew by less than one percent from 1990 to 1997, slower than the pace in 46 other states and starkly short of the 8 percent national average. The report also found that 220,000 more people left the state than moved here between 1990 and 1997. This discouraging aggregate trend concealed an intensified exodus of the young and educated. Of those 220,000, almost 90,000 had college degrees and 126,000 were 25-34 year-olds.

The state's current boom cannot be sustained without adequate supplies of skilled labor. We need to make the most of every worker, and recognize that wasting workers through needless skill deficiencies is as real a loss as the brain drain to other states. Only by raising the Commonwealth's skills base, especially among our least skilled workers, can we begin to reduce economic disparities and reinforce the economic vigor we currently enjoy.

But we are not well positioned to pursue this mission. Our top colleges and universities are second to none. Serious bipartisan efforts at primary and secondary education reform promise to improve the skills of the next generation. Many employers provide ongoing training for their own workers—but mostly for those who already have strong skill foundations.

Massachusetts's weak suit—compared to other states, and to our own needs—is providing skill-building opportunities for adults, especially lower-middle-class and working-class adults.

New federal legislation—the Workforce Investment Act of 1998—provides a rare occasion for Massachusetts to rethink, reorganize, and reinforce its workforce development efforts. But the new legislation is more an invitation than a mandate. It leaves key decisions (and most of the burden) to the separate states. We can use this occasion to build on strengths, make good our weaknesses, and integrate scattered programs into a true workforce development system. Or we can slide by with the minimal changes the new law requires.

Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost.

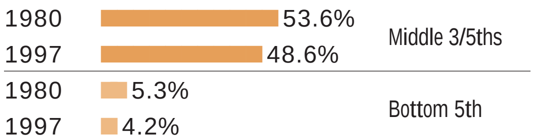
If we squander this special opportunity to use the Workforce Investment Act as a lever for reform, however, we will be passing on a chance that other states are unlikely to miss. Our leadership in skills-based industry is a long-standing legacy, but a legacy that can be lost. Massachusetts can maintain its lead in top-flight, highly adaptable labor. It can deliver the skilled hands and minds to staff our businesses, swell the ranks of taxpayers, shrink the ranks of dependents, and help thousands more of our citizens firmly secure their place in the broad middle class. But we can only do this by building and funding a workforce development system that goes beyond the ambitions of the past.

KEY FINDINGS

Income inequality has increased starkly over the past two decades despite years of sustained economic growth.

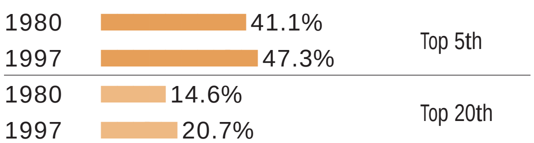
- The fraction of family income collected by the broad middle class—the middle three-fifths of the income spectrum—dropped from 53.6 percent to 48.6 percent from 1980 to 1997. Over the same period, the share of family income collected by the bottom fifth of families nationwide fell from 5.3 percent to 4.2 percent. *See page 6.*

Family Income Falls for the Middle and Bottom



- The income share of the top fifth of American families, meanwhile, has risen from 41.1 to 47.3 percent—and, within that top fifth, the top *twentieth's* share of total family income has gone from 14.6 percent in 1980 to 20.7 percent in 1997. *See page 6.*

Family Income Rises for the Top and Very Top



- One study that examined state-by-state average income for families with children in 1985-87 and again in 1994-96 found that the top fifth of families in Massachusetts gained an average of 15 percent in annual income while the bottom fifth *lost* an average of 8 percent, once inflation is factored in. During this decade the U.S. as a whole saw a little more gain at the top (16 percent) but considerably less loss at the bottom (3 percent). *See page 6.*

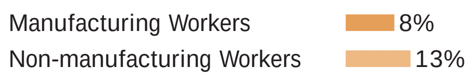
The evidence is clear: investments in human capital increase the economic returns to both employers and workers.

- While earning power is surely affected by genetic endowment, family background, luck, timing, individual character and work experience, there is ample evidence that investments in human capital matter greatly on their own. Researchers have found that a year of post-secondary education increases annual earnings by 5 to 10 percent, even after controlling for other factors and (importantly) whether or not that education was from a two-year or four-year college program. *See page 5.*

- Indeed, human capital need not be acquired in an educational institution. Research suggests that a year of structured on-the-job training can have the same impact on wages as a year of college. *See page 5.*

- Using data from a nationally representative survey of U.S. employers in 1994, researchers found that increasing the average educational level of workers in a firm by one year raised productivity as much as 8 percent in manufacturing industries and 13 percent in non-manufacturing industries. *See page 5.*

Productivity Rises When Average Worker's Educational Level is Increased One Year



The economic returns to skills are increasing—even as college enrollments increase.

- Economic divisions among American families are deepening along educational lines. Professional families averaged more than three times the income of high-school graduate families in 1998, and their income has grown three times as fast since 1991. *See page 4.*

Education and Family Income in the 1990s*

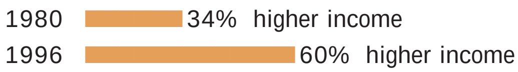
Education of Family Head	Average 1998 Family Income	Real Growth 1991-1998
High School dropout	$33,356	4%
High School graduate	$48,434	8%
Associate's degree	$63,524	10%
Bachelor's degree	$85,423	13%
Master's degree	$101,670	17%
Professional degree	$147,170	24%

- In 1980, male college graduates collected 34 percent more annual personal income, on average, than high-school graduates. Men with some post-graduate education, in turn, earned 15 percent more than

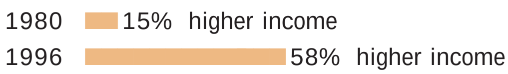
* Current Population Survey historical data, Table F-18, from http://www.census.gov/hhes/income/histinc/f018.html, accessed November 1999.

those who stopped with the bachelor's degree. By 1996, college graduates earned 60 percent more than high-school graduates. And men with post-graduate degrees earned 58 percent more than college graduates. In other words, in just sixteen years the best-educated men went from earning roughly one and a half times as much as high-school graduates to earning over two and a half times as much. *See page 4.*

Male College Graduates Earn Increasingly More Than Their High School Graduate Counterparts

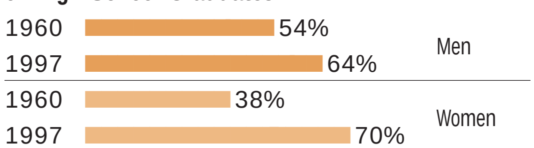


Male Post-Graduates Earn Increasingly More Than Even Their College Graduate Counterparts



- The widening of the education premium is even more striking when one considers that it has occurred in the context of a rapidly rising *supply* of educated workers. In 1960, 54 percent of male high school graduates and 38 percent of female high school graduates enrolled in college. By 1997 college enrollment rates had soared to nearly 70 percent for young women, and close to 64 percent for young men. *See page 4.*

College Enrollment Rates of High School Graduates



Many Massachusetts employers provide training to at least some of their employees—but training goes disproportionately to those employees who already have high levels of education and skill.

- For both the U.S. and Massachusetts, virtually all employers with more than fifty employees provided or paid for some type of formal training for at least some employees. Smaller employers are considerably less likely than larger employers to have established formal training programs. This difference in the probability of providing training, depending on the size of the business, is particularly important in light of the fact that unskilled and lower skilled workers are employed disproportionately in smaller firms. *See page 24.*

- Very few employers (nationally or within Massachusetts) offer any basic skills training. Within Massachusetts, only one percent of all businesses provided any basic skills training to their employees, and hardly any of the smallest businesses did this. *See page 24.*

- Employers in both the U.S. and Massachusetts, on average, are more likely to provide job skills training programs for managers, computer technicians and sales workers than for production or services workers. So skill begets skill. In other words, workers who have a lot of skills when they enter a firm are more likely to receive additional skills. But workers that are "skill deficient" when they enter a firm are less likely to get training from their employers. *See page 24.*

- Small businesses in Massachusetts are less likely to provide training for production workers and clerical workers than the US average. Over a third of U.S. firms include clerical and production workers in their skill-training programs; around a quarter of the Commonwealth's firms do so. Since we know that these same types of workers are *also* less likely to be upgrading their skills at community colleges, JTPA and state-funded training programs in Massachusetts than in other states, this result is cause for concern. *See page 25.*

Massachusetts has no organized workforce development system designed to lift the skills and education levels of our many low-skilled workers.

- Current efforts represent a hodge-podge of efforts—Welfare Reform, Adult Basic Education, job training (through the Job Training Partnership Act, which will be replaced by the Workforce Investment Act in July 2000), incumbent worker training financed with Unemployment Insurance funds, and community colleges supported by state appropriations and tuition fees (some subsidized, directly or indirectly, by the state and federal governments). Each has its own funding streams, which are often complicated—and its own reporting mechanisms, which are not uniform across different parts of the system.

- There is no information system in place that allows taxpayers, employers, and workers to evaluate how each of these elements of our workforce development "system" are performing. Consequently, there is too little real accountability and no easy way to demand more of it.

New federal legislation provides Massachusetts with a lever to create a unified workforce development system for the first time.

- The Workforce Investment Act was passed in 1998—a rare, bipartisan accomplishment following years of struggle and debate in Washington.

- WIA is a significant—but imperfect—change to the old federal system embodied in the Job Training Partnership Act. It calls for:
  - Consolidation and coordination among workforce-related programs,
  - "One-stop" service for job-seekers and employers,
  - Information-based accountability, and
  - Customer choice and competition among service providers.

- It encourages states to integrate programs for the unemployed and workers (including the working poor).

- But the fine print in the WIA gives states the option of making only minor changes to the old system.

- And the rhetoric of the new federal law is undercut by the fact that there is little new money to match the expanded mission. Moreover, the funding formula Washington uses means Massachusetts gets a small share of what money there is.

RECOMMENDATIONS

Recommendation 1: Focus on measurable performance outcomes and hold elements of the system accountable for results. *See page 47*.

- **Build the state's new workforce development system using key features of the state's K-12 Education Reform model.** The K-12 model hinges on two interlocking features: a renewed funding commitment and a concerted push to create performance measurements and accountability mechanisms that will provide both customers and taxpayers with easy-to-understand data on the value of their investments.

- **Make earnings growth, rather than the conventional measure of job placement, the central indicator of the new system's performance.** Adult job training—arguably unlike K-12 education—has a simple goal: Raising earning power. Such gains can be measured—not perfectly, but tolerably well—and should serve as the system's touchstone. The state's workforce development system should gauge its progress on the basis of the earnings of individuals who have used it. Weaving the unemployment insurance program's wage records into the workforce information system, and interpreting these data with proper care will make it possible to track this indicator.

- **Take advantage of the freedom WIA gives states to define their own goals.** WIA presents no bar to a state defining higher wages and family-supporting earning power as the goal of its workforce development system. The past few decades of employment and training policy have shown that placement is relatively easy; raising earning power is hard. The more the Commonwealth sets the scorecard in terms of placement alone, the less aggressively we will see real reform in workforce development. A placement bias will tilt the system towards job-search services and short-term or job-specific training, and away from deeper investments in worker skills.

Recommendation 2: Encourage business and labor support and invite business and labor pressure. *See page 47*.

- **Business organizations should show the same vision and tenacity they displayed in taking on the K-12 challenge.** Publicly-funded workforce development remains a marginal issue for too many in the business community. Some business organizations have developed an ongoing interest in job training. But this involvement is typically episodic, or low-level, or both. In addition, business organizations should actively work to forge coalitions with labor organizations to build and sustain momentum for reform.

- **High-profile leaders within the business community should publicly associate themselves with the move toward implementing WIA.** Only if business leaders develop a personal stake in the establishment of an integrated workforce development system will they bring pressure to bear that can counter the temptation to pass on the opportunity for deep reform.

- **The labor movement should recognize and act on its own stakes in effective workforce develop-**

ment. A campaign of system-building for workforce development offers a prime occasion for partnership between the state's labor movement and business community. The active engagement of senior labor leaders could help assuage the anxiety of some public-employee union members, and thus broaden the coalition for reform.

Recommendation 3: Build the nation's best workforce information system. *See page 48.*

- **The Governor, with support from the Legislature, should commit state resources, and solicit private resources, to create a workforce information system that is second to none in the nation.** A new system is required that goes beyond current efforts in collecting, analyzing, and disseminating data. Only if workers have good data on the skills required by area employers can they make good choices about what kind of training to pursue. Only if employers have confidence that credentials accurately reflect skills will they come to rely on workforce public labor exchanges. Only if prospective trainees can compare the differences in earnings outcomes among providers can they make intelligent choices as "consumers" of these services. Moreover, only if the Commonwealth has rich, reliable data on the performance of providers, regional organizations, and types of training, can it intelligently adjust its workforce policies in years to come. An ambitious information system is thus the prerequisite to building a workforce development system.

- **Policy-makers should set a deadline of January 2001 for having the essential components of the system in place.** There are significant challenges in making good data on labor markets and training providers widely available to citizens. But the challenges are mostly financial, organizational, and political rather than technological. Since a good data system is a prerequisite to key elements of reform, an aggressive implementation timetable for the information system is essential. And since a good data system does not exist yet, it is important to recognize that system-building will be an on-going campaign. Some steps, obviously, cannot be completed by the time WIA takes effect in July 2000; some cannot even be well underway by then. But a commitment to having the basics of a data system in place by January 2001 is the most crucial downpayment the Commonwealth can make on a workforce development system.

Recommendation 4: Build a workforce system that provides training opportunities to a broad spectrum of workers, not just the unemployed. *See page 49.*

- **Take advantage of the freedom WIA gives states to decide what groups their programs should serve.** The Workforce Investment Act allows states to engineer their training and employment programs to benefit a variety of low-wage workers, rather than restricting assistance to the jobless and dependent. But it does not mandate major efforts in this direction. Nor does it provide the additional resources to support a broader agenda. Workforce development will remain marginal and under-funded if it remains merely an aspect of anti-poverty policy. And we will miss out on our best chance to create a system that empowers more citizens to move up the ladder of economic opportunity into the middle class.

- **Think creatively about ways to encourage employers to provide training opportunities to their low-wage workers and to share at least some measure of the cost.** Many low-wage workers are short on time and money, making some conventional training approaches (such as extended courses of classroom study) infeasible. Workers generally fall into two different groups: those whose employers are willing (or can be rendered willing) to invest in them, and those whose employers will not. Expanding realistic training opportunities requires a different approach for each group.

- **For employers that have shown they are willing to invest in their low-age workers, create incentives to encourage on-site training.** Incumbent worker training is usually based in or near the workplace itself. It might also occur on paid time, or just before or after paid time. The great advantage of this type of training is that it puts less pressure on a worker's schedule. As much as possible, we should pursue policies that move more workers (and their employers) into this first category. Tactics worth exploring include targeted grant, loan, or tax-incentive programs tailored to small- and medium-sized companies.

- **For employers that have not shown a willingness to invest in their low-age workers, experimental**

loan or grant programs ought to be explored to help workers who must pursue training independently to replace their lost wages. For the members of this group, making a living and getting some training are separate and distinct activities. They occur in different places and at different times. A useful model is to consider how graduate students at universities are typically treated. Graduate students often get two kinds of benefits at once: Tuition scholarships, so they don't have to pay for it out of pocket. And a stipend to cover their living costs, so that they don't have to give up study time in order to be able to work. With major changes in what community college students must pay for tuition, the state has begun to provide an equivalent to this free tuition model. The next logical step under the graduate student model would be a measure of access to loans or grants to free up time for training. This merits serious consideration as a significant—but admittedly expensive—extension of workforce development assistance to the working poor. The state should begin exploring potential partnerships with foundations, as well as leaders in the private sector, to fund a pilot program of "training stipends" to support low-wage adult students while they pursue educational opportunities.

Recommendation 5: Take consolidation and customer choice seriously—but gradually. *See page 50.*

- **The Legislature and the Administration should develop and embrace a strategy to knit the entire workforce development system together—and not just the programs specifically slated for integration under the Workforce Investment Act.** Employer-based training for incumbent workers, financial aid for post-secondary programs, remedial and basic education for adults, and other enterprises should be rendered more a system, less a scatter of separate programs. This will take time and political capital. But several considerations suggest it will be worth the effort. So long as "job training" is walled off and secondary to other kinds of investments in human capital, the broader workforce development system will remain warped.

- **As part of the effort to knit institutions and programs into a system, identify and pursue operational economies.** A less important reason for integration, though still a respectable one, is operational economy: Pooling administrative resources can improve the earning power bang for the education and training buck.

- **As part of the effort to knit institutions and programs into a system, build a diversified financial base.** Some of the current funding sources (like employer-mandated contributions to the Workforce Training Fund) rise with the Commonwealth's economy while others (like federal training allocations) fall. Integration can promote system-wide fiscal stability. Finding new ways to put "funding" eggs into more than one "spending" basket, while politically and managerially vexing in the short-term, will augment the system's impact and efficiency over the long haul.

- **Take steps now that will make choice and competition progressively more central to the system and endorse the competitive model as the eventual goal.** The Administration and Legislature may be sorely tempted to downplay the opportunity to introduce more choice and competition into workforce development: The infrastructure is not in place, the model has some real limits, and the competitive ideal inspires skepticism (even hostility) among many insiders. As a short-term model it has undeniable problems. But longer-term it offers tremendous advantages in efficiency, integration, and performance.

- **Do not declare any one provider or group of providers immune from the imperative to demonstrate their payoff to individuals. At the same time, make sure to strengthen each set of providers first, before putting them against each other in full competition.** Community-based organizations with good track records should get technical assistance to help them to adjust to the challenge of vouchers. The Commonwealth can afford to buffer the transition to full competition. And it should, since the alternative is either a risky and traumatic transition or (more likely) a political stalemate leading to a relabeled status quo.

- **Provide public community colleges with adequate funding incentives to make larger-scale incumbent worker training initiatives possible.** Until campuses are rewarded adequately for their efforts to expand their job training mission by defraying the cost of new training initiatives, uncertainty and risk will continue to stymie progress in making them a central part of a new workforce development system.

Recommendation 6: Fund the workforce development system at a level that reflects its growing importance to our state's shared prosperity. *See page 52.*

- **Our elected officials in Washington should step up their advocacy on two fronts:** First, they should be attentive to instances where federal aid distribution formulas penalize the state unreasonably. Building legislative coalitions with other states similarly short-changed is the best route to amending existing formulas. Second, our leaders should advocate higher federal spending levels nationally for workforce development. The Workforce Investment Act incorporates a number of potentially promising policy changes, but it fails to provide any significant funding increase that would light a fire behind those initiatives. Without a reliable funding increase from the federal government, states will find it difficult, if not impossible, to build the kinds of workforce development systems that can empower low-wage workers to better their circumstances.

- **The workforce development system should be supported in part by concentrating existing streams of state and federal funding that have not been integrated in the past.** There is no legal or logical barrier against engaging a wide range of existing programs—including those of the Department of Transitional Assistance, federal and state Adult Basic Education programs, post-secondary financial aid, and the Workforce Training Fund efforts of DET—to amplify the impact of more narrowly defined job training funds. This will not happen automatically, of course. One reason why high-level commitment is essential is that otherwise turf-consciousness and simple inertia will undercut the potential for synergy.

- **State government should also step up to the plate with a series of targeted appropriations increases for the institutions and programs at the core of the new system.** Over the next five years, the state has the chance to create a real workforce development system for the first time—and WIA provides the perfect opportunity to begin that process this summer. But no one seriously believes that we can create a job training system that serves low-skilled workers well without committing significant new resources over the next five years.

Recommendation 7: Provide the bipartisan leadership vital to the effort's success. *See page 53.*

- **State political leaders of whatever ideological or partisan stripe should affirm consensus on the importance of skill-building, and seize the opportunity for dramatic action.** This report does not call for a scorched-earth approach to Massachusetts's employment and training programs. But existing institutions and their leaders—no fonder than anyone else is of outside pressure, and scarred by recent disputes—are generally disinclined to undertake major changes. And given the low salience of job training in good times, and the modest federal requirements for serious restructuring, the Commonwealth will waste a rare occasion for reform unless arrangements for funding, governing, and providing employment and training are examined closely and skeptically. Without tenacious political leadership, innovation is unlikely.

- **The state's political, civic, business, and labor leadership should draw lessons, and courage, from their collective experience with K-12 Education Reform.** Tenacious leadership is exactly what the state has received on K-12 Education Reform for most of the past seven years. At each crucial moment, strong leadership from the Senate President, the House Speaker, the Governor, the business community, the Board of Education and many others has held the line on the state's funding commitments and kept the pressure on for raising standards and delivering improved performance. To build a workforce development system that embodies these same principles will require the same kind of sustained commitment from policy-makers, from business and labor leaders, and from other organizations and individuals across the state. Workforce development promises to be a major part of the solution to some of the Commonwealth's most important problems: Skills shortages that strangle economic growth potential, earnings stagnation at the low end of the labor market, and growing income inequality.